

Federal  
Income Tax &  
Railroad Retirement  
Benefits

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Questions  
and  
Answers

## **Railroad Retirement Board**

**Glen L. Bower**

*Chairman*

**V. M. Speakman, Jr.**

*Labor Member*

**Jerome F. Kever**

*Management Member*

### **Mission Statement**

*The primary mission of the Railroad Retirement Board is to administer the Railroad Retirement and Railroad Unemployment Insurance Acts, and to assist in the administration of the Social Security Act and the Internal Revenue Code.*

### **Policy Statement on Quality**

*In carrying out our mission, the Railroad Retirement Board will strive to pay benefits to the right people, in the right amounts, in a timely manner, treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly. The Railroad Retirement Board will maintain a work environment characterized by teamwork, respect and a commitment to doing the job right the first time.*

## **Federal Income Tax and Railroad Retirement Benefits**

The following questions and answers describe the benefit information statements issued by the Railroad Retirement Board each January for Federal income tax purposes, and reflect the laws in effect in December 1996.

Railroad Retirement Board beneficiaries needing information about these statements, or tax withholding from their benefits, should contact the nearest office of the Railroad Retirement Board. They may also E-mail the Board with their inquiries at [taxation@mcs.com](mailto:taxation@mcs.com).

In addition, information on the Board can be accessed through the Board's Web Site on the Internet. Information is available on benefit requirements, customer service standards, field office locations, and other topics of interest to both active and retired railroad employees. The address is <http://www.rrb.gov>.

For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service.

**1. How are the annuities paid under the Railroad Retirement Act treated under the Federal income tax laws?**

In most cases, part of a railroad retirement annuity is treated like a social security benefit for income tax purposes, while other parts of the annuity are treated like private and public service pensions for tax purposes. Consequently, most annuitants are sent two benefit information statements from the Railroad Retirement Board each January, even though they receive only a single annuity payment each month.

**2. Which railroad retirement benefits are treated as social security benefits for Federal income tax purposes?**

The part of a railroad retirement annuity equivalent to a social security benefit based on comparable earnings, as well as special minimum guaranty payments, are treated for Federal income tax purposes the same way as a social security benefit. The amount of these benefits that may be subject to Federal income tax, if any, depends on the beneficiary's income.

If adjusted gross income plus non-taxable interest income and half of the social security equivalent benefit payments exceed:

- \$25,000 for an individual, \$32,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 50 percent of these railroad retirement benefit payments may be considered taxable income;
- \$34,000 for an individual, \$44,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 85 percent of these benefits may be taxable.

### **3. Which railroad retirement benefits are treated like private and public service pensions for Federal income tax purposes?**

Railroad retirement annuity payments exceeding social security equivalent payments, plus any vested dual benefits and supplemental annuities, are all treated like private and public service pensions for Federal income tax purposes. In some cases,

primarily those in which early retirement benefits are payable to retired employees and spouses between ages 60 and 62, and some occupational disability benefits, the entire annuity may be treated like a private or public pension. This is because social security retirement benefits are not payable before age 62 and social security disability benefits require total disability.

*For annuities beginning before July 2, 1986*, payments exceeding social security equivalent benefits were generally taxable under the Internal Revenue Code Three-Year Rule, which allowed retirees to first recover their previously-taxed pension contributions from cumulative benefit payments, after which benefits became fully subject to income tax.

*For annuities beginning after July 1, 1986*, railroad retirement payments exceeding social security equivalent levels are generally taxable under the Internal Revenue Code General Rule or Simplified General Rule. For income tax purposes under these rules, contributory payments are subject to income tax immediately upon retirement, but are prorated to yield a tax-free amount based on an employee's

previously-taxed pension contributions.

For *employees and survivors* whose annuities began *after July 1, 1986, and before January 1, 1987*, the tax-free contributory exempt amount remains the same as long as they receive the annuity. If the annuity began *after December 31, 1986*, the tax-exempt amount remains in effect only until the employee's contributions are recovered.

For railroad retirement annuitants, employee contributions are considered to be the amount of railroad retirement payroll taxes paid by the employee over and above comparable social security payroll tax rates. However, vested dual benefit payments and railroad retirement supplemental annuities are considered noncontributory and fully taxable. Nor do spouse annuity payments exceeding social security equivalent payments include a tax-free amount; these benefits are also fully taxable.

Additional information about the tax treatments of railroad retirement benefits over and above social security equivalent benefits can be found in IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*, and Publication 939, *Pension General Rule (Nonsimplified Method)*. If the employee

died during the taxable year, survivors should also refer to these publications because a death benefit exclusion may apply.

#### **4. What information is shown on the railroad retirement benefit statements sent to annuitants in January?**

One statement, the blue Form RRB-1099, shows the amount of any social security equivalent or special minimum guaranty payments made during the taxable year, the amount of any such benefits that an annuitant may have repaid to the Board during the taxable year, and the net amount of these payments after subtracting the repaid amount.

The other statement, the green Form RRB-1099-R, shows the total amounts of contributory railroad retirement benefits over and above social security equivalent benefits, plus any noncontributory vested dual benefits and/or supplemental annuities paid to the annuitant during the taxable year, as well as the amount of an employee's railroad retirement payroll tax contributions. Also shown on the statement is the amount of any benefits that an annuitant may have repaid to

the Board during the taxable year. However, this amount has not been subtracted from the gross amounts shown as its treatment depends on the years to which the repayment applies and its taxability in those years. To determine the year or years to which the repayment applies, annuitants should contact the Board.

Only a copy of Form RRB-1099-R need be submitted with a tax return. Annuitants should retain Form RRB-1099 and also copy C of Form RRB-1099-R for their records, especially if they may be required to verify their income in connection with other Government programs.

**5. Does Form RRB-1099-R show the taxable amount of any contributory railroad retirement benefits or just the total amount of such benefits paid during the taxable year?**

Since 1993, only the total amounts of contributory railroad retirement benefits paid over and above social security equivalent benefits are shown. Tax-free amounts are no longer subtracted.

Annuitants may continue to use the tax-free amounts previously calculated by the Railroad Retirement Board under

the General Rule method if they wish to do so. However, use of this Board-computed tax-free amount precludes using alternate tax treatments, such as the Simplified General Rule, that may be more advantageous in some cases.

Annuitants wishing to consider alternate tax treatments should refer to the IRS-1040-1 package issued each year and/or IRS Publication 575, *Pension and Annuity Income (Including Simplified General Rule)*. Annuitants preferring to compute the tax-free amount themselves under the General Rule method, or to verify the Board's figures, should refer to IRS publication 939, *Pension General Rule (Non-simplified Method)*.

## **6. What other information is included with the railroad retirement benefit statements?**

Attached to the statements are detailed explanations of all the items on the two statements and the toll-free telephone number of the Internal Revenue Service.

## **7. What if a person receives social security as well as railroad retirement benefits?**

Railroad retirement annuitants who also received social security benefits during the taxable year receive a Form

SSA-1099 from the Social Security Administration. They should add the net social security equivalent or special guaranty amount shown on Form RRB-1099 to the net social security income amount shown on Form SSA-1099 to get the correct total amount of these benefits. They should then enter this total on the Social Security Benefits Worksheet in the instructions for Form 1040 or 1040A to determine if their social security and railroad retirement social security equivalent benefits are to be considered as taxable income.

Additional information on the taxability of these benefits can be found in IRS Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits*.

**8. Are the separation allowance lump-sum amounts, residual lump sums or lump-sum death payments paid by the Railroad Retirement Board subject to Federal income tax?**

No. These amounts are not subject to Federal income tax.

**9. Are Federal income taxes withheld from railroad retirement annuities?**

Yes, and the amounts withheld are shown on the statements issued by the

Board each year. However, an annuitant may request that Federal income taxes not be withheld, unless the annuitant is a nonresident alien or a citizen living outside the United States.

Annuitants who wish to have Federal income taxes withheld from the portions of their annuity over and above social security equivalent benefits must file a tax withholding election on Form RRB W-4P, *Withholding Certificate For Railroad Retirement Payments*.

Beginning January 1, 1997, annuitants can voluntarily choose to have Federal income tax withheld from their social security equivalent payments. To do so, they must complete IRS Form W-4V, *Voluntary Withholding Certificate*, and send it to the Board. They can choose withholding from their social security equivalent payments at the following rates: 7%, 15%, 28%, or 31%.

#### **10. How is tax withholding applied to the railroad retirement benefits of nonresident aliens?**

Under the Internal Revenue Code, nonresident aliens are subject to a 30-percent tax on income from sources

within the United States not connected to a U.S. trade or business. The 30-percent rate applies to all annuity payments exceeding social security equivalent payments and to 85 percent of the annuity portion treated as a social security benefit. The Code also requires the Board to withhold the tax. The tax can be at a rate lower than 30 percent or can be precluded entirely for payments exceeding social security equivalent amounts if a tax treaty between the United States and the country of residence provides such an exemption, and the nonresident alien completes the exemption renewal forms sent by the Board every three years. ***Failure by a nonresident alien to complete these forms will cause loss of the exemption until the exemption is renewed.*** Such renewals have no retroactivity. The majority of nonresident aliens receiving annuities from the Board are citizens of Canada, which has a tax treaty with the United States. **Even though a Canadian citizen claims an exemption, the tax treaty requires the Board to withhold tax at the 30 percent rate from 85 percent of the annuity portion equivalent to a social security benefit. However, a withholding rate of 15 percent applies to annuity payments exceeding social security equivalent**

**payments when the exemption is claimed.**

Additional information concerning the taxation of nonresident aliens can be found in IRS Publication 519, *U.S. Tax Guide for Aliens*.

**11. Are unemployment benefits paid under the Railroad Unemployment Insurance Act subject to Federal income tax?**

All unemployment benefit payments are subject to Federal income tax. Each January the Board sends Form 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

**12. Are sickness benefits paid by the Railroad Retirement Board subject to Federal income tax?**

Sickness benefits paid by the Board, except for sickness benefits paid for on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries. Each January the Board sends Form W-2 to affected beneficiaries.

**13. Does the Board withhold Federal income tax from unemployment and sickness benefits?**

The Board withholds Federal income tax from unemployment and sickness benefits only if requested to do so by the beneficiary.

**14. Are railroad retirement and railroad unemployment and sickness benefits paid by the Board subject to State income taxes?**

The Railroad Retirement and Railroad Unemployment Insurance Acts specifically exempt these benefits from State income taxes.

**15. Can a railroad employee claim a tax credit on his or her Federal income tax return if the employer withheld excess railroad retirement taxes during the year?**

If any one railroad employer withheld more than the annual maximum amount, the employee must ask that employer to refund the excess. It cannot be claimed on the employee's return.

**16. Can a railroad employee working two jobs during the year get a tax credit if excess retirement payroll taxes were withheld by the employers?**

Railroad employees who also worked for a nonrailroad social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads during the year, or who had tier I taxes withheld from their Railroad Retirement Board sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. The amount of tier I taxes withheld from sickness benefits paid by the Board is shown on Form W-2 issued to affected beneficiaries. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax.

Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more railroads, received sickness

benefits or had both railroad retirement and social security taxes withheld from their earnings, should see IRS Publication 505, *Tax Withholding and Estimated Tax*, for information on how to figure any excess railroad retirement or social security tax withheld.

## **Fraud and Abuse Hot Line**

Call the toll-free Hot Line if you have reason to believe that someone is receiving railroad retirement or unemployment-sickness benefits to which he or she is not entitled, or that persons responsible for the financial affairs of minors or incompetent beneficiaries are misappropriating benefits. You may also use the Hot Line to report any suspected misconduct by a Railroad Retirement Board employee.

The toll free Hot Line number nationwide is 1-800-772-4258. Or you may send your complaints in writing to: RRB, OIG, Hot Line Officer, 844 North Rush Street, Chicago, Illinois 60611-2092. Please do not call the Inspector General's Hot Line with questions about eligibility requirements, delayed claims, or similar problems. Such matters should be directed to the nearest Railroad Retirement Board office.

Call the Department of Health and Human Services' Hot Line at 1-800-HHS-TIPS if you have reason to believe that a doctor, hospital or other provider of health care services is performing unnecessary or inappropriate services or is billing Medicare for services you did not receive.

## **Nondiscrimination on the Basis of Disability**

Under Section 504 of the Rehabilitation Act of 1973 and Railroad Retirement Board regulations, no qualified person may be discriminated against on the basis of disability. The Board's programs and activities must be accessible to all qualified applicants and beneficiaries, including those who are vision or hearing-impaired. Disabled persons needing assistance (including auxiliary aids or program information in accessible formats) should contact the nearest Board office. Complaints of alleged discrimination by the Board on the basis of disability must be filed within 90 days in writing with the Director of Equal Opportunity, Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois 60611-2092. Questions about individual rights under this regulation may also be directed to the Board's Director of Equal Opportunity.

**This leaflet is issued for the purpose of general information. Certain limitations, exceptions, and special cases are not covered.**

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**U.S. RAILROAD RETIREMENT BOARD  
844 North Rush Street  
Chicago, Illinois 60611-2092  
Form T-5 (January 1997)**